

Message Text

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ACTION EA-10

INFO OCT-01 EUR-08 ISO-00 EB-04 FEA-01 AEC-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01

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C O N F I D E N T I A L HONG KONG 11763

E.O. 11652: GDS

TAGS: ETRD, ENRG, CH, JA, RP, KN

SUBJECT: PRC PETROLEUM EXPORTS

REF:TOKYO 13795

SUMMARY: THE PRC SHOULD EARN OVER \$500 MILLION IN OIL EXPORTS
IN 1974, UP FROM ABOUT \$35 MILLION IN 1973, AND CAN EXPECT TO
EARN OVER \$1 BILLION IN OIL SALES IN 1975. GROWTH OF DOMESTIC
PRODUCTION IS NOT LIKELY TO BE A CONSTRAINT; IT IS EXPECTED TO
MORE THAN KEEP UP WITH NEW EXPORT COMMITMENTS OF THAT ORDER.
END SUMMARY

1. THE REPORT (REFTEL) THAT THE PRC'S CRUDE EXPORTS TO JAPAN
WILL REACH 4.8 MILLION TONS IN 1974 REPRESENTS AN ADDITION OF
300,000 TONS TO THE PREVIOUSLY ANNOUNCED LEVEL OF 45 MILLION
TONS. AT THIS LEVEL, CRUDE EXPORTS TO JAPAN ALONE SHOULD EARN
THE PRC OVER \$450 MILLION IN 1974. TOGETHER WITH EXPORTS TO
THE PHILIPPINES (WTPNPPP TONS), NORTH KOREA (PROBABLY OVER
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1 MILLION TONS), AND NORTH VIETNAM, AND SALES OF REFINED

PRODUCTS TO HONG KONG (300,000 TONS), IT MEANS PRC EARNINGS FROM PETROLEUM EXPORTS WILL PROBABLY EXCEED \$500 MILLION IN 1974.

2. THE PRC MAY BE ABLE TO DOUBLE THAT FIGURE IN 1975. REFTEL'S REPORT THAT THE PRC HAS "BASICALLY AGREED" TO SUPPLY JAPAN A MINIMUM OF EIGHT MILLION TONS OF CRUDE IN 1975 POINTS UP ITS RAPIDLY GROWING PETROLEUM EXPORT CAPABILITY. ASSUMING A RANGE OF FROM 8-10 MILLION TONS AT PRICES EQUIVALENT TO CURRENT INDONESIAN CRUDE (MENAS), THE PRC COULD EXPECT TO EARN \$800,000 TO \$1 BILLION IN SALES TO JAPAN IN 1975. AT THE LEVEL OF 10 MILLION TONS IN 1975 AND PROSPECTS FOR FURTHER INCREASES LATER, THE PRC BEGINS TO OFFER SERIOUS COMPETITION TO SIBERIA AS A SOURCE OF CRUDE FOR JAPAN, PARTICULARLY AS SIBERIA WOULD ENTAIL EXTENSIVE JAPANESE INVESTMENT, DELAYS IN PAYOFF AND POSSIBLY RISKS OF OFFENDING PEKING.

3. IF SALES SCHEDULED FOR 1975 TO THE PHILIPPINES (750,000 TONS) ARE ADDED AND IF DELIVERIES OF CRUDE AND REFINED PRODUCTS TO NORTH KOREA AND HONG KONG DO NOT DECLINE FROM 1974 LEVELS, THE PRC COULD EASILY EARN IN EXCESS OF \$1 BILLION IN 1975 FROM EXPORTS OF PETROLEUM. EARNINGS AT THIS LEVEL WILL OBVIOUSLY STRENGTHEN THE PRC'S EXPORT POSITION AND WOULD GREATLY REDUCE, IF NOT ELIMINATE, THE PROSPECT OF SIZEABLE HARD-CURRENCY TRADE IMBALANCES IN THE NEXT FEW YEARS AS A RESULT OF ITS UNPRECEDENTED PURCHASES OF ABOUT \$1.8 BILLION WORTH COMPLETE PLANTS SINCE THE BEGINNING OF 1973.

4. PRC DOMESTIC PRODUCTION OF CRUDE SHOULD HAVE NO PROBLEM IN KEEPING PACE WITH THE PRC'S EXPORT COMMITMENTS. OUTPUT IN 1974 WILL PROBABLY REACH 66-69 MILLION TONS BASED ON AN ESTIMATED GROWTH RATE OF 25-30 PERCENT. DESPITE VEHICLE IMPORTS OF 15 AND 20 THOUSAND UNITS IN 1973 AND 1974 RESPECTIVELY, THERE IS NO REASON TO THINK THAT DOMESTIC CONSUMPTION WILL INCREASE FAST ENOUGH OVER THE NEXT FEW YEARS TO AFFECT EXPORT AVAILABILITIES.

5. INADEQUATE PORT AND TRANSPORTATION FACILITIES REMAIN THE MAJOR CONSTRAINT ON EXPANDING PETROLEUM EXPORTS. TO OVERCOME

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THESE PROBLEMS THE PRC IS KNOWN TO BE BUILDING A PIPELINE FROM ITS MAJOR FIELD AT TACHING TO DAIREN AND ALSO PERHAPS TO CHINWANGTAO ON THE POHAI GULF AND IS UNDERTAKING A MAJOR IMPROVEMENT OF NINE OF ITS PORTS WITH SPECIAL EMPHASIS ON EXPANDING OIL HANDLING FACILITIES. THE PRC HAS ALSO PURCHASED FIVE SECOND-HAND TANKERS FROM NORWAY IN THE 50,000 TO 74,000 DWT CLASS (HK 10576) AND IS REPORTEDLY NEGOTIATING WITH JAPAN FOR THE CONSTRUCTION OF SEVERAL 90,000 DWT TANKERS,

WHICH WOULD PROBABLY BE DELIVERED IN LATE 1977, ROUGHLY
COINCIDING WITH COMPLETION OF THE PORT PROGRAM.

6. AS AN INTERIM MEASURE, THE PRC MAY SEEK TO EASE THE
PETROLEUM HANDLING BURDEN ON ITS PORTS BY ACQUIRING OFFSHORE
LOADING FACILITIES AND BY REDUCING THE NEED TO SHIP OIL FROM
NORTH CHINA TO SOUTH CHINA. IN THIS CONNECTION, WE NOTE THE
REMARKS RECENTLY MADE BY PRC FOREIGN TRADE MINISTER LI CH'ANG
TO AUSTRALIAN DEPUTY PRIME MINISTER CAIRNS (PEKING 1808), LI
SAID THAT THE PRC IS INTERESTED IN BUYING OFFSHORE MOORING
BUOYS FROM JAPAN FOR LOADING TANKERS AND IS IMPORTING SEVERAL
HUNDRED THOUSAND TONS OF CRUDE FROM THE MIDDLE EAST THROUGH
SOUTH CHINA. (SEE HK 10576 FOR AN ADDITIONAL REPORT ON THE
LATTER.)
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